

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

PURCHASED WATER ADJUSTMENT FILING )  
OF THE ELKHORN WATER DISTRICT ) CASE NO. 5036-1

O R D E R

On July 18, 1984, Elkhorn Water District ("Elkhorn") filed its application with the Commission requesting approval of its purchased water adjustment clause and authority to adjust its rates in accordance with that clause. Elkhorn proposed to recover the increase in purchased water expense from its wholesale supplier, the Frankfort Electric and Water Plant Board ("Frankfort") scheduled to become effective July 31, 1984. The Commission has accepted this proposal subject to the absorption test described herein.

COMMENTARY

Prior to approving increased rates resulting from purchased water cost increases pursuant to 807 KAR 5:067, the Commission must examine a utility's financial condition to determine whether it can absorb any of the increased cost. If there is potential for absorption, the Commission may adjust rates to offset only that portion of the increased water cost which cannot be absorbed.

TEST PERIOD

Elkhorn proposed and the Commission has accepted the 12-month period ending December 31, 1983, as the test period in

this matter. Adjustments deemed proper and reasonable have been included to more accurately reflect current operating conditions.

#### REVENUES AND EXPENSES

Elkhorn did not propose any adjustments, as such, to its test year statement of operations. However, Elkhorn did include a calculation of the increase in purchased water costs resulting from the increased wholesale rate charged by Frankfort. The Commission, after careful examination of Elkhorn's financial condition, has made the following adjustments to Elkhorn's test-year operating statement in accordance with its established rate-making policies:

##### Purchased Water Expense

Elkhorn's purchased water expense for the test year was \$17,996. Elkhorn's normalized purchased water expense including the increase from Frankfort effective July 31, 1984, is \$33,122. Accordingly, the Commission has increased Elkhorn's operating expenses by \$15,126 to reflect the increased purchased water expense.

##### Depreciation Expense

Elkhorn's test-year depreciation expense was \$8,786. This reflects depreciation on total plant in service with a resulting composite rate of 2.75 percent. It is the policy of the Commission to compute depreciation expense for rate-making purposes on non-contributed plant only. Such a policy insures that ratepayers pay only for the plant in which the utility has made an investment and not the plant which the utility has acquired through contributions.

Elkhorn's balance sheet at the end of the test period reflects contributions in aid of construction of \$161,875 which represents 50.7 percent of the total cost of utility plant in service. In determining the pro forma depreciation expense, the Commission has utilized Elkhorn's composite depreciation rate and excluded contributed property. This results in the exclusion of 50.7 percent of the test-year depreciation expense. The adjusted depreciation expense for rate-making purposes is \$4,330 which reflects a reduction of \$4,456.

Adjustments to the test period operations produced the following results:

	<u>Actual</u>	<u>Commission Adjustments</u>	<u>Commission Adjusted</u>
Operating Revenues	\$55,262	\$ -0-	\$55,262
Operating Expenses	46,437	10,670	57,107
Operating Income	\$ 8,825	\$ <10,670>	\$ <1,845>
Other Income	17,404	-0-	17,404
Other Deductions	5,450	-0-	5,450
Net Income	<u>\$20,779</u>	<u>\$ &lt;10,670&gt;</u>	<u>\$10,109</u>

#### REVENUE REQUIREMENTS

Elkhorn's average annual debt service for the next 5 years is \$7,970. The Commission is of the opinion that a debt-service coverage of 1.2X is a fair, just and reasonable coverage for Elkhorn to maintain in that it meets the requirements of its lenders and provides an adequate surplus for equity growth. Based on adjusted test period operations, the Commission finds that Elkhorn's current rates generate sufficient revenues to meet its operating needs and, therefore, no rate adjustment is necessary. This is demonstrated as follows:

Adjusted Operating Expenses	\$57,107
1.2X Debt-Service Coverage	<u>9,564</u>
Revenue Requirement	\$66,671
Less:	
Adjusted Operating Revenue	55,262
Adjusted Other Income	<u>17,404</u>
Increase Required	<u>\$&lt;5,995&gt;</u>

Thus, Elkhorn's current revenue levels exceed its required revenues by \$5,995. Therefore, the Commission is of the opinion that Elkhorn can and should absorb \$15,126, which is the full amount of the increase in its purchased water cost.

#### SUMMARY

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. The purchased water adjustment clause proposed by Elkhorn is in compliance with 807 KAR 5:067 and should be approved.

2. Elkhorn has the potential to absorb \$15,126, which is the full amount of the increase in its purchased water cost.

3. The rates proposed by Elkhorn produce revenues in excess of those found reasonable herein and should be denied upon application of KRS 278.030.

4. The base rate for future application of the purchased water adjustment clause of Elkhorn should be:

<u>Supplier</u>	<u>Rate</u>
Frankfort Electric and Water Plant Board	\$ .80 per 1,000 gallons

IT IS THEREFORE ORDERED that the purchased water adjustment clause proposed by Elkhorn be and it hereby is approved effective on and after the date of this Order.

IT IS FURTHER ORDERED that the rates proposed by Elkhorn be and they hereby are denied.

IT IS FURTHER ORDERED that the rates currently charged by Elkhorn are fair, just and reasonable and should continue to be charged.

IT IS FURTHER ORDERED that for the purpose of future application of the purchased water adjustment clause of Elkhorn the base rate for purchased water shall be:

<u>Supplier</u>	<u>Rate</u>
Frankfort Electric and Water Plant Board	\$.80 per 1,000 gallons

IT IS FURTHER ORDERED that Elkhorn shall file with the Commission within 30 days from the date of this Order its revised tariff sheets setting out the purchased water adjustment clause approved herein.

Done at Frankfort, Kentucky, this 4th day of September, 1984.

PUBLIC SERVICE COMMISSION

Richard D. Deman, Jr.  
Chairman

[Signature]  
Vice Chairman

[Signature]  
Commissioner

ATTEST:

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Acting Secretary